

MEMORANDUM

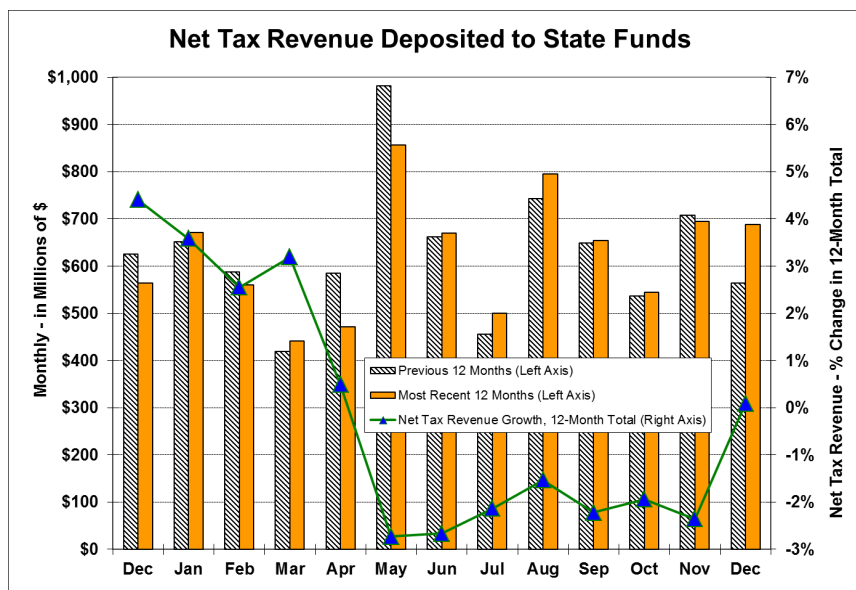
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: January 21, 2015

Twelve-month Total Net Tax Receipts Through December 31, 2014

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending December 2014 with comparisons to the previous 12 months. December 2013 to December 2014 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

With December deposits, growth in the 12-month State tax total turned positive for the first time since April 2014. Sales/use, corporate, and fuel tax are each up 5.4% or more year-over-year. However, banking, inheritance, gambling, cigarette/tobacco, and real estate transfer taxes continue to show weakness and are down on a year-over-year annual basis. Although individual income tax deposits have decreased over the past 12 months, they are expected to turn positive as tax returns for tax year 2014 are processed during the next few months.

Month of December 2014

December net tax receipts totaled \$688.4 million, an increase of \$124.6 million (22.1%) compared to December 2013. The timing of the 2014 Thanksgiving holiday resulted in a delay in the deposit of sales/use, fuel, and individual income tax withholding payments at the end of November. As a result, \$50.0 million of gross deposits that belong to November revenue was deposited December 1. Even with this adjustment, December 2014 receipts increased significantly, posting strong growth in nearly all tax revenue categories.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending December 2014, net revenue from all taxes deposited to State funds totaled \$7.546 billion, an increase of \$6.8 million (0.1%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$168.8 million, - 4.9%) – Due to an increase in the Iowa Earned Income Tax Credit, the new Iowa Taxpayer Trust Fund Tax Credit, and the FY 2013 one-time boost to revenue that was the result of federal tax changes enacted January 1, 2013, the annual rate of income tax revenue growth declined significantly during the first half of calendar year 2014. While growth recovered during the second half of 2014, annual growth for individual income tax will likely remain negative until tax returns are processed this coming spring.
- Sales/Use Tax (positive \$132.7 million, 5.4%) – Sales/use tax growth continues to be strong.
- Bank Tax (negative \$5.1 million, - 13.6%) – The use of income tax credits may explain the weakness in bank (franchise) tax receipts. Banks utilize income tax credits and often those credits are purchased from other taxpayers with insufficient tax liability to use the credits themselves.
- Fuel Tax (positive \$25.0 million, 5.8%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 2.7% and taxable diesel sales increased 3.7%. The annual total for all taxable gasoline/ethanol/diesel fuel gallons sold in Iowa is currently 0.1% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$4.4 million, - 1.5%) – According to Racing and Gaming Commission statistics, 11 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending December 2014. The combined AGR change for the 18 facilities was negative 2.1% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.396 billion. The annual AGR total has declined over the past two years and is 5.0% below the December 2012 peak.
- Real Estate Transfer Tax (negative \$1.2 million, - 6.1%) – Real Estate Transfer Tax deposits increased in December, but have declined year-over-year in five of the past 12 months.
- Cigarette and Tobacco Tax (negative \$5.7 million, - 2.5%)

Tax Spotlight – Other Taxes

The "Other Tax" category includes the following net tax collections:

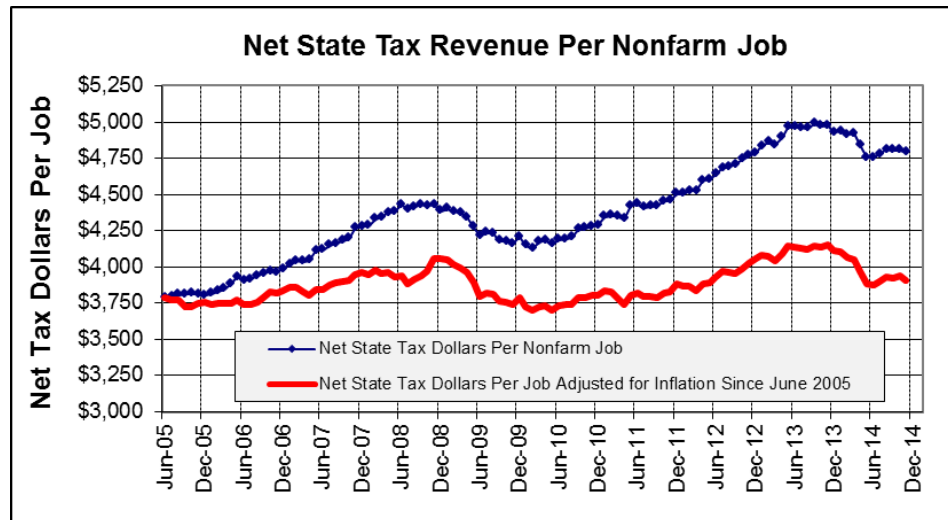
- Brucellosis Eradication Property Tax – This statewide property tax is administered under the authority of [Iowa Code section 165.18](#). The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be

paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2015, the property tax rate is \$0.0033 per \$1,000 of taxed valuation. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$461,000 over the most recent 12-month period.

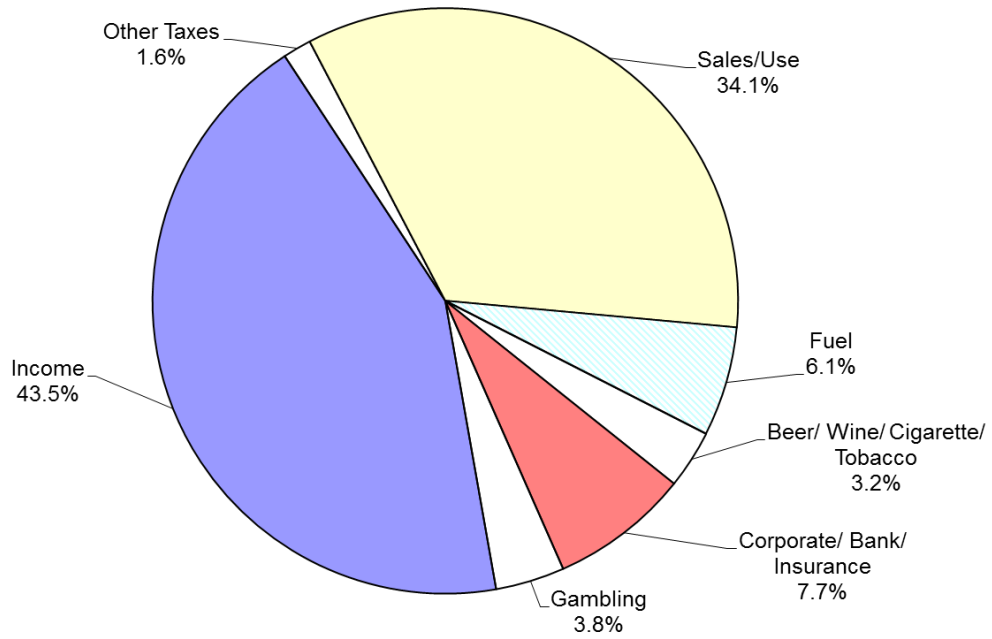
- Drug Stamp Tax – This tax is administered by the Department of Revenue under the authority of [Iowa Code chapter 453B](#). The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited in the General Fund. The tax raised \$215,000 over the most recent 12-month period.
- Utility Replacement Property Tax – This statewide property tax is administered under the authority of [Iowa Code section 437A.18](#). The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$342,000 over the most recent 12-month period. An additional amount of utility replacement tax is collected each year under the provisions of [Iowa Code section 437A.15\(3f\)](#). Annual taxes collected by the State under this provision total approximately \$1.5 million per year and have been deposited to the [Property Tax Relief Fund](#), the [Mental Health and Disability Services Redesign Fund](#), and the Department of Human Services Medical Assistance State General Fund appropriation.
- Car Rental Tax – This tax is administered by the Department of Revenue under the authority of [Iowa Code chapter 423C](#). The tax rate of 5.0% is imposed on the rental price of a vehicle. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$3.6 million over the most recent 12-month period.
- Tax Gap Program – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. A total of \$12.0 million in tax revenue was credited to the Tax Gap Program over the most recent 12-month period.
- Department of Revenue Operating Appropriation Transfers – Each month, the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department's operations account. The money is used in the operations budget to fund collections (FY 2014 = \$11.1 million) and streamlined sales tax activities (FY 2014 = \$0.2 million). Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as "intrastate transfers." During FY 2014, these transactions artificially reduced reported State tax receipts by a total of \$11.3 million.

Tax Revenue and Employment

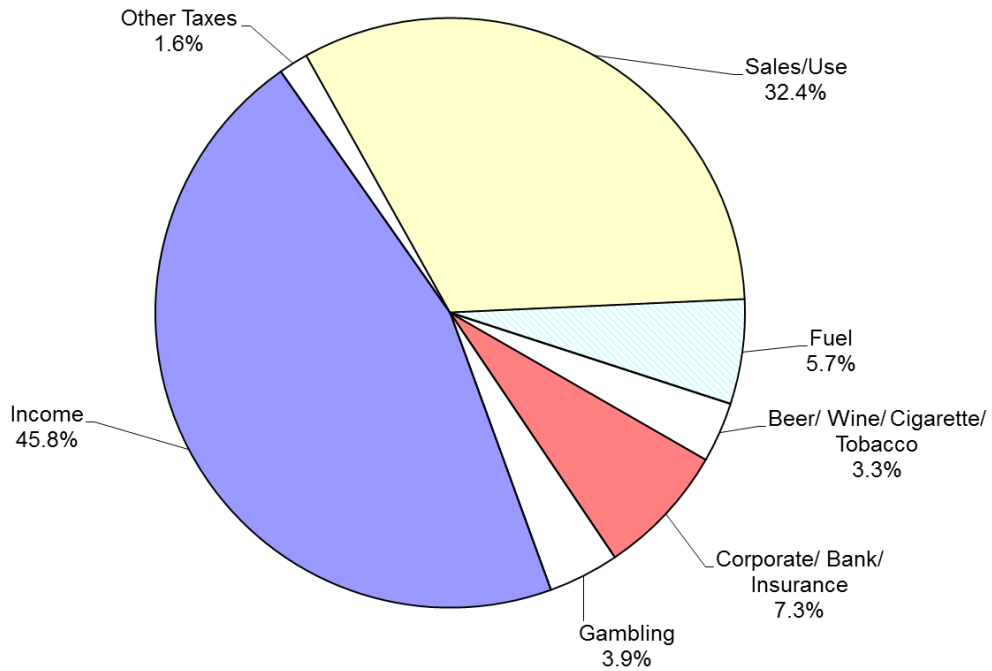
The average reading for Iowa nonfarm employment over the 12 months ending November 2014 is 1,548,400 and net State tax receipts over the same 12 months totaled \$7.421 billion, or \$4,793 per nonfarm job. This is \$1,008 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation adjusted tax revenue per job has increased \$125 since June 2005 and the remainder of the \$1,008 increase (\$883) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending December 2014
Net Revenue = \$7.546 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending December 2013
Net Revenue = \$7.539 Billion
Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of December 2013	Month of December 2014	December \$ Change	December % Change
Banking	\$ 37.4	\$ 32.3	\$ - 5.1	-13.6%	\$ 6.3	\$ 9.1	\$ 2.8	44.4%
Beer & Wine	21.8	21.9	0.1	0.5%	1.9	1.9	0.0	0.0%
Cigarette & Tobacco	227.0	221.3	- 5.7	-2.5%	20.7	24.1	3.4	16.4%
Corporate Income	403.6	438.0	34.4	8.5%	23.8	35.6	11.8	49.6%
Fuel	431.7	456.7	25.0	5.8%	37.2	50.1	12.9	34.7%
Gambling	292.5	288.1	- 4.4	-1.5%	23.4	25.2	1.8	7.7%
Individual Income	3,453.9	3,285.1	- 168.8	-4.9%	287.0	325.5	38.5	13.4%
Inheritance	89.7	87.5	- 2.2	-2.5%	9.5	8.4	- 1.1	-11.6%
Insurance	106.3	108.8	2.5	2.4%	0.0	0.4	0.4	--
Other Taxes	13.4	12.9	- 0.5	-3.7%	1.2	2.6	1.4	116.7%
Real Estate Transfer	19.7	18.5	- 1.2	-6.1%	1.5	2.6	1.1	73.3%
Sales/Use	2,441.7	2,574.4	132.7	5.4%	151.3	202.9	51.6	34.1%
Total Net Taxes	<u>\$ 7,538.7</u>	<u>\$ 7,545.5</u>	<u>\$ 6.8</u>	0.1%	<u>\$ 563.8</u>	<u>\$ 688.4</u>	<u>\$ 124.6</u>	22.1%
Gross Tax & Refunds								
Gross Tax	\$ 8,899.2	\$ 8,996.9	\$ 97.7	1.1%	\$ 667.1	\$ 794.1	\$ 127.0	19.0%
Tax Refunds	\$ - 1,360.5	\$ - 1,451.3	\$ - 90.8	6.7%	\$ - 103.3	\$ - 105.9	\$ - 2.6	2.5%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,339.3	\$ 6,203.5	\$ - 135.8	-2.1%	\$ 453.8	\$ 562.3	\$ 108.5	23.9%
Road Use Tax Fund	\$ 767.8	\$ 803.6	\$ 35.8	4.7%	\$ 60.4	\$ 73.4	\$ 13.0	21.5%
Non-GF Gambling	\$ 290.4	\$ 286.5	\$ - 3.9	-1.3%	\$ 23.2	\$ 25.1	\$ 1.9	8.2%
Other State Funds	\$ 141.2	\$ 251.9	\$ 110.7	78.4%	\$ 26.3	\$ 27.4	\$ 1.1	4.2%
Local Option Taxes *	\$ 900.7	\$ 915.6	\$ 14.9	1.7%	\$ 76.7	\$ 74.7	\$ - 2.0	-2.6%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of the State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited to a new Sales Tax Increment Fund and used for local flood mitigation projects.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database: The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.